

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 6440**

**BILL NUMBER:** HB 1309

**NOTE PREPARED:** Jan 22, 2008

**BILL AMENDED:**

**SUBJECT:** Repeal of Valuation Method for Certain Property.

**FIRST AUTHOR:** Rep. Brown C

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** \_\_\_ **GENERAL**  
                              **DEDICATED**  
                              **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill repeals the property tax valuation method for special integrated steel mill and oil refinery/petrochemical equipment.

**Effective Date:** January 1, 2008 (retroactive).

**Explanation of State Expenditures:** The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and nonbusiness personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

PTRC and Homestead credits are paid from the Property Tax Replacement Fund. In CY 2009, these payments cannot exceed \$2,028.5 M (there is currently no limit for taxes payable in CY 2010 and after). Under current law, if these payments exceed this limit, PTRC rates for all taxpayers are proportionately reduced in order to keep total payments within this limit.

This bill would result in a tax shift among taxpayers in counties where Pool #5 is being utilized. Without regard to appropriation, tax shifts *from* business personal property to other property would cause the state's expense for regular PTRC and Homestead Credits to increase. Conversely, tax shifts *to* business personal property from other property would cause PTRC and Homestead Credits to be reduced.

If total future PTRC and Homestead Credits are subject to a limit, the state's overall expense would not be affected. Rather, some of the available credit dollars could shift between PTRC and homestead credits.

**Explanation of State Revenues:** The state levies a tax rate for State Fair and State Forestry. Any change in the assessed value base will similarly change the property tax revenue for these two funds.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Under current law and DLGF rule, business personal property is valued according to a depreciation schedule as specified in the rule. Most taxpayers list the cost of depreciable property in one of four “pools”, depending on the declared useful life of the property. Each pool has a different set of depreciation rates for each year of age of the property. The asset cost is multiplied by the appropriate “percent good” factor in the depreciation schedule to produce the total true tax value (TTV) of the assets. The TTV of all of a taxpayer’s depreciable property located in the same taxing district must be at least 30% of the total cost of the property (30% floor). The rule allows for special valuation of special tooling and for an adjustment for abnormal obsolescence of depreciable assets.

Taxpayers who own integrated steel mill or oil refinery/petrochemical equipment are permitted to report that property in a fifth pool on the depreciation schedule. In addition, all of the taxpayer’s property may be valued in Pool #5 if at least 50% of the total reported property cost is attributable to special integrated steel mill or oil refinery/petrochemical equipment.

Integrated steel mill property is property used to produce steel from iron ore and other materials in a blast furnace in Indiana. Oil refinery/petrochemical equipment is used to process at least 100,000 barrels of crude oil per day into various petroleum products. Taxpayers in Lake and St. Joseph Counties have been identified as currently reporting assets in Pool #5.

The TTV of property reported in Pool #5 is not subject to the 30% floor. In addition, the depreciation schedule already reflects all adjustments for depreciation and obsolescence, including abnormal obsolescence. Therefore, a taxpayer electing to use Pool #5 may not claim any other obsolescence adjustment.

The following table contains the percent good factors of the five pools in the depreciation schedule.

<b>Personal Property Depreciation Schedule</b>					
	<b>Pool 1</b>	<b>Pool 2</b>	<b>Pool 3</b>	<b>Pool 4</b>	<b>Pool 5</b>
<b>Age of Property</b>	<b>1-4 Year Life</b>	<b>5-8 Year Life</b>	<b>9-12 Year Life</b>	<b>13+ Year Life</b>	<b>All</b>
Year 1	65%	40%	40%	40%	40%
Year 2	50%	56%	60%	60%	56%
Year 3	35%	42%	55%	63%	42%
Year 4	20%	32%	45%	54%	32%
Year 5	20%	24%	37%	46%	24%
Year 6	20%	18%	30%	40%	18%
Year 7	20%	15%	25%	34%	15%
Year 8	20%	15%	20%	29%	10%
Year 9	20%	15%	16%	25%	10%
Year 10	20%	15%	12%	21%	10%
Year 11	20%	15%	10%	15%	10%
Year 12	20%	15%	10%	10%	10%
Year 13+	20%	15%	10%	5%	10%
	Total value of Pools 1-4 must be at least 30% of total cost (30% Floor)				No 30% Floor

Beginning with taxes payable in CY 2009, this bill would eliminate the use of Pool #5. Without Pool #5, all property would be reported in the original four pools. The 30% floor would apply and the affected taxpayers would be permitted to make obsolescence claims. For those taxpayers, the total TTV computed from the schedule would likely be higher than if Pool #5 were used. However, the final assessed value might be higher or lower than the Pool #5 after obsolescence claims are considered.

Any change in the final assessed value would create a shift of the property tax burden among taxpayers. If the final AV on these returns is higher than the assessments under current law, part of the tax burden would shift from all other taxpayers to the owners of steel mills and oil refinery/petrochemical equipment. Conversely, if the final AV on these returns is lower than the assessments under current law, part of the tax burden would shift to other taxpayers from the owners of steel mills and oil refinery/petrochemical equipment.

In addition, the levy generated in rate-capped funds such as cumulative funds would either increase if personal property AV increases or it would decrease if personal property assessments are reduced.

**State Agencies Affected:** Department of Local Government Finance; State Fair Board; Department of Natural Resources.

**Local Agencies Affected:** Local assessors and taxing units in counties where Pool #5 is utilized.

**Information Sources:**

**Fiscal Analyst:** Bob Sigalow, 317-232-9859.